AT&T has no intention of applying connection charges to customers who have not ordered the service, and accordingly, will send notices to customers alerting them to this new option upon the effectiveness of the tariff revisions under investigation. These customers have actively ordered Tariff 9 service from AT&T and are aware that they are currently receiving transport service into the AT&T POP in connection with their Tariff 9 service. Upon notification of the tariff changes, they will have the option to obtain AT&T's connection service or to decline service.

Issue 2: Is AT&T's practice of bundling the Access Coordination Function with Feature Group A and B Connection Service reasonable?

1. How will AT&T's provision of the access coordination function differ under Transmittal 6788 from the coordination service it has previously provided for voice grade special access service?

AT&T's provision of the Access Coordination Function does not differ under Transmittal 6788 from the coordination service it has previously provided for voice grade special access service.

-- If coordinated service, as distinct from end-to-end service, is not to be provided in connection with Feature Group A and B connection service, explain why this practice does not unreasonably restrict customers from taking a portion of their Feature Group A or B access service from the LECs.

Feature Group A or B connection service is still a coordinated service offering. Coordinated service is not distinct from end-to-end service from an ordering, provisioning and maintenance perspective. Even when AT&T provides the connection from the LEC end office switch to the AT&T POP there is still coordination required between AT&T and the LEC to ensure the end-to-end (customer premises to customer premises) service works and is properly maintained. Moreover, the customer still receives a portion of its Feature Group A or B access service from the LEC, i.e., the usage-sensitive elements. Also, the customer will continue to receive two access bills, a usage bill from the LEC and a flat-rated bill from AT&T.

Under any coordinated service agreement, the customer purchases an Access Coordination Function (ACF) from AT&T, for which AT&T will provide for the design, ordering, installation coordination, pre-service testing and service turn-up, trouble sectionalization and restoration coordination. AT&T is willing to offer the same coordinated service for Feature Group A or B access, as an option, to account for those customers wishing to receive their entire access service and bill from the LEC. AT&T's ACF service can thus be obtained separately from its Feature Group A or B access connection service.

2. If the end user customer does not take AT&T's Feature Group A or Feature Group B Connection Service, can that customer continue to receive Feature Group A or B access service from the LECs using a voice grade connection or must the customer purchase a high capacity facility and incur charges over and above the voice grade rates?

If an end user customer does not affirmatively elect to receive AT&T's Feature Group A or B connection service, the customer can still connect to AT&T's POP using a LEC's tariffed access service, subject to AT&T's standard interface requirements. It is up to the LEC to inform the customer as to whether there are any provisioning restrictions to its tariff and to provide necessary access services and aggregation to satisfy interface requirements at the IXC POP.

3. Who determines the level of the network interface (e.g., voice grade, DS-1 or DS-3) at an AT&T POP?

The network interface requirements are determined by whoever owns the POP. In the case of an AT&T POP, AT&T determines the network interface requirements for receiving access traffic.

4. If AT&T requires the facilities used to provide Feature Group A or B service to connect at a high capacity interface at AT&T's POP, how will end users be able to use a LEC's voice grade transport and entrance facilities to enter AT&T's POP?

The actual facilities and network interface requirements used to provide access service should be transparent to a customer. A customer does not buy a facility or network interface but an access service. If an end user chooses to use a LEC voice grade transport and entrance facilities, the LEC should be responsible for providing the facilities and meeting interface requirements for handing off traffic to the IXC. That is the LEC's responsibility and is implicit to a LEC's tariff offering of voice grade transport service.

-- Should AT&T, the LEC, or both provide the multiplexing necessary to meet AT&T's interface requirements?

Whoever provides the access service to the customer should be providing whatever is required to satisfy IXC interface requirements.

-- Should AT&T, the LEC, or both provide a customer with voice grade transport from the end office to the IXC POP?

The customers should have options in obtaining transport (or portions of transport) from the end office to the IXC POP. AT&T's Feature Group A and B connection service would give customers such an option by allowing AT&T to resell LEC flat-rated portions of Feature Group A and B transport. At the same time, AT&T understands that the LECs, under the requirements of the Transport Orders, should be offering customers unbundled entrance facilities and direct trunked transport, so that if the customer wishes to obtain Feature Group A or B access from the LEC, and be billed for all associated rate elements (usage and flat-rate), he or she may do so.

Issue 3: Is AT&T's practice of bundling the entrance facility and direct trunked transport rate elements together reasonable?

-- AT&T should explain why it has bundled these two transport rate elements in its Feature Group A and B connection service. If AT&T maintains that it cannot offer this connection service on an unbundled basis, AT&T should state the reasons why it cannot do so and why it is not unreasonable to restrict end user customers' ability to take the unbundled transport rate elements, including usage-based transport, to the entrance facility of the AT&T POP.

By its tariff revisions, AT&T will be reselling the LECs' flat-rated portions of Feature Group A and B access service. By the Commission's Transport Orders, the LECs are required to unbundle their entrance facilities and direct trunked facilities. See Suspension Order, ¶ 14 & n.21. AT&T's connection service simply provides an additional option of obtaining ET and DT for Feature Group A and B together. If a customer wishes ET or DT on an unbundled basis, he or she may obtain it from the LEC.

AT&T's combination of ET and DT in its connection service is clearly reasonable. For AT&T to provide support of Feature Group A and B in any other way than as a connection charge which includes both the ET and DT components raises a number of issues which would preclude AT&T's ability to provide cost effective service to the customer.

AT&T derives advantages both from a cost standpoint and a maintenance standpoint by requiring access suppliers to interface at a DS1 level. In addition, the high capacity facilities AT&T obtains from the LEC always include both the entrance facility and direct trunked transport rate elements. To divide the Feature Group A and B connection into separate EF and DT components would allow a customer, for example, to purchase the EF from AT&T and the DT from another vendor. To offer this possibility would require AT&T to accept a network interface at a DSO level and not the AT&T standard DS1 level. The expense to multiplex up to a DS1 would then have to be incurred and passed on to the customer, as well as expenses associated with converting from analog to digital because AT&T's backbone network is digital. Additional administrative (e.g., ordering, billing) and maintenance expense would also be required. Thus, there would be a negative financial impact to the customer associated with unbundling the EF and DT charges under AT&T's connection service.

Unbundling also impacts AT&T's ability to provision and maintain the circuit and will only add confusion to the customer. AT&T is currently not able to maintain or be responsible for only the EF. Testing or maintenance on circuits is done on an end-to-end basis. Stopping at the EF is technically not a natural place to stop; for example, loop back capability does not exist at the EF. In addition, AT&T's tariff credits customers for circuit outages due to problems with the portion of the circuit which is AT&T's service, but identifying an EF problem may not be possible. All processes associated with the way AT&T presently provisions, maintains, and would bill service would have to be changed.

<u>Issue 4</u>: Are the terms and conditions of service provided under Transmittal 6788 reasonable?

-- Is the existing Feature Group A and B traffic transported on facilities used to provide both special and switched access, or on facilities used to provide other switched services?

The transport facilities that the LECs (after their local transport restructure) now bill AT&T for use in providing the existing Feature Group A and B traffic are only used to provide special access services; no other switched access service traffic (such as MTS) is carried on them. For transport facilities that the LECs now charge AT&T as the Feature Group A or B customer of record, only Feature Group A or B traffic is carried.

-- Does AT&T or the LEC determine the facilities over which the traffic travels?

Prior to their restructured local transport tariffs, it is AT&T's understanding that the LEC would determine over which facilities the Feature Group A or B traffic traveled. The LEC would either determine to use an access facility not leased to others, or request to use an existing AT&T special facility. After the transport restructure, all LEC ET or DT facilities carrying Feature Group A or B traffic are being charged to AT&T. AT&T, as lessor of the facilities, has Connecting Facility Assignment (CFA) control.

-- Does AT&T or the LEC control the assignment of circuits on these entrance facilities terminating at AT&T's POP?

AT&T, with Connecting Facility Assignment control, determines the assignment of circuits on the facilities for which the LECs are charging AT&T in connection with Feature Group A or B service.

-- If AT&T controls this function, how can the Feature Group A or B end user remove its traffic from those entrance facilities to avoid being charged by AT&T for its use of the entrance facilities?

If AT&T controls the facilities associated with Feature Group A or B connection service which includes the EF and DT, a customer can avoid being charged by AT&T by not ordering AT&T's connection service.

<u>Issue 5</u>: Are the charges proposed to be included in Tariffs 9 and 11 pursuant to Transmittal 6788 reasonable?

There are no proposed charges for connection service included in Tariff 9; all proposed charges are included in Tariff 11 and are reasonable.

1. AT&T should provide an example of how it derived the nonrecurring and recurring charges it proposes to assess. In

addition, AT&T should describe in detail the actual costs that are reflected in the nonrecurring and recurring charges, and the source of those costs. This description should include the cost of the actual high capacity facilities used for Feature Group A or B service -- not the full voice grade charges.

AT&T derived the proposed nonrecurring and recurring charges on the basis of the expected additional costs imposed by the LECs in charging AT&T for the facilities used to provide the flat-rated portion of Feature Group A and B access, together with the expected demand for the connection services proposed in AT&T's tariff revisions. The rates further reflect AT&T's consideration of the market constraints on such connection charges. AT&T examined the various LECs' tariffs for comparable flat-rated elements and estimated the expected fill, on an overall basis, for the facilities at issue. From this analysis, AT&T derived proposed rates designed to make the connection service compensatory.

No more detailed cost support or cost of facilities studies were prepared. Any estimate of the "cost of the actual high capacity facilities used for Feature Group A or B service," for example, varies from LEC to LEC (and even within a single LEC) based on their different tariff rates, and zone, term, and volume pricing differences. Moreover, varying degrees of fill within each particular access service facility affect the revenue to cost comparison. AT&T's charges are designed to be compensatory for resold Feature Group A and B access on an overall basis.

Finally, AT&T is simply reselling the flat-rated portions of the LECs' Feature Group A and B access services. The

LECs' tariffs impose a price ceiling on the rates customers will be willing to pay for resold service: if AT&T's connection service rates are too high in comparison to the efficiency and convenience obtained, those customers will make alternative arrangements for their access services, or for the underlying interexchange service. For these reasons, AT&T's offerings under its F.C.C. Tariff No. 11 have never been subject to price cap regulation. See, e.g., 47 CFR § 61.42(c)(3). Rather, market circumstances and the underlying regulation of the LECs' access rates (coupled with the available of access services from the LECs on an unbundled basis) serve to ensure the reasonableness of AT&T's Tariff 11 rates.

Similarly, the underlying interexchange services that utilize the LECs' Feature Group A and B access services are subject to intense competitive pressures and an array of competitive alternatives. The Commission has previously determined that these and other business services (which were initially included in AT&T's price cap "Basket 3" services) need not be subject to price cap or other regulatory price control.[3] The market for the ultimate interexchange service, and the existence of alternatives for the resold access services, thus fully ensure the reasonableness of the rates AT&T can charge.

2. AT&T should explain why a nonrecurring charge is included in the rates for the connection service it proposes, and

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[3] See Competition in the Interstate Interexchange Marketplace, 6 FCC Rcd 5880 (1991), recon., 6 FCC Rcd 7569 (1991), further recon., 8 FCC Rcd 2659 (1993), appeal pending.

explain how it derived the nonrecurring charge it proposes to assess.

A nonrecurring charge is included as part of the tariff due to the fact that when any new service is installed, nonrecurring charges will be incurred by AT&T. The nonrecurring charge is derived from a number of factors, including estimated costs incurred, as well as competitive market conditions.

3. Because the end user customers for this service are current LEC customers and because they currently appear to have in place the facility for Feature Group A and B service, AT&T should explain why it is not unreasonable to fail to exempt these customers from its nonrecurring charge.

AT&T would exempt all existing customers associated with the Feature Group A or B service from its nonrecurring charge. AT&T has a planned conversion process in place for these embedded base customers (those who currently have Feature Group A or B service), should they choose to utilize AT&T's connection service. The nonrecurring charge would only be imposed on <u>new</u> customers to the connection services and related Tariff 9 services.

<u>Issue 6</u>: Is AT&T's practice of charging Feature Group A and B end users for Feature Group A or B connection service reasonable in areas where LECs currently offer split billing arrangements?

1. Describe currently available LEC split billing or other methods of LEC billing end user customers directly for the customer's portion of the high capacity facilities used.

Southwestern Bell Telephone (SWBT) is the only major LEC of which AT&T is aware that offers a tariffed split billing option for local transport facilities. We are aware of some other LECs who are considering a Billing and Collection version of split billing, but these arrangements are not in place.

2. AT&T should discuss whether the current forms of split billing are reasonable. AT&T should also indicate whether these arrangements or some other form of split billing would solve the Feature Group A and B billing problem from the point of view of the end user customer and from AT&T's point of view.

The split billing issue is irrelevant to the reasonableness of AT&T's efforts to resell Feature Group A and B service that has been imposed on AT&T. With or without a split billing option, AT&T should be allowed to provide the service as an option to its customers.

Based on SWBT tariffs, as well as input from AT&T's Ordering and Billing Forum (OBF) representative, split billing arrangements for Feature Group A and B is not an acceptable option. It is AT&T's understanding that under split billing, the LEC will bill the end user customer for the local transport facility, and provide AT&T a credit based on a calculation of 1/24 or 1/672 of a DS1 or DS3 rate (ratcheting). This would effectively allow the LEC to charge AT&T for a full DS1/DS3 facility, then resell a channel of that facility to an end user, compensating AT&T at a 1/24 or 1/672 rate. The credit to AT&T, and the ratcheting of facilities charged to AT&T, does not properly compensate AT&T for carrying all the risks and expenses associated with maintaining facilities, e.g., multiplexing and fill rates of utilization are not taken into consideration. Additionally, it is AT&T's understanding that the LEC is making AT&T, as the customer of record (or "primary customer"), liable for payment if the end user ("secondary customer") defaults on his or her bill. See, e.g., Suspension Order, ¶ 12.[4]

Split billing under a Billing and Collection (B&C) arrangement would raise additional issues and concerns for AT&T. Under B&C, the LEC would bill the end user charges established by AT&T. But AT&T would first need to establish those rates in its tariff, which is currently suspended and not in effect. In addition, AT&T would incur extra charges from the LEC for B&C services and those extra costs would need to be passed on to the end user customer.

3. To the extent split billing is available, AT&T should explain why it has failed to consider using that or other billing options so that end users can be billed only for the portion of the high capacity facilities used to transport their voice grade Feature Group A and B service to AT&T's POP. AT&T should also explain why, in light of the existence of these split billing options, AT&T's practice of billing the Feature Group A and B end users under Transmittal 6788 is not unreasonable under Section 201(b) of the Act.

AT&T has not failed to consider split billing or any other acceptable option. For the reasons described above, including the fact that split billing would not permit AT&T to recover all of the additional access costs imposed by the LECs, split billing is limited and unacceptable in its present form. And whether split billing is available or not available, it is not unreasonable for AT&T to tariff a service it wishes to provide its customers, who in turn will determine its reasonableness by continuing to purchase from AT&T or to disconnect service and utilize another provider.

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[4] See also AT&T Direct Case, p. 14, n.13, supra.

4. Could AT&T use the mechanism in Tariff 11, Section 3.3.6, "Arrangement for LEC Use of Existing High Capacity Access" provided to AT&T, to recover from the LEC for LEC use of AT&T high capacity facilities to transport Feature Group A and B traffic to the AT&T POP?

No, AT&T could not use the mechanism in Tariff 11, "Arrangement for LEC Use of Existing High Capacity Access" to recover from the LEC for LEC use of AT&T high capacity facilities. Applicability of Tariff 11, Section 3.3.6 presumes that the end user customers are LEC customers, and that the end user, not AT&T, is the relevant customer of record. The LECs, through their tariffs for restructured local transport, have made AT&T the customer of record for the flat-rated portion of Feature Group A or B. Therefore, this is not a feasible alternative.

EXHIBIT 1

AT&T

Molly Langridge
AT&T ACCUNET Services
District Manager

Room 3A203
900 Rts. 202/206 North
P. O. Box 752
Bedminster, NJ 07921

April 15, 1994

[redacted]

Dear Valued AT&T Customer:

On April 15, 1994, AT&T filed a tariff change to F.C.C. Tariff 11 for Feature Group A charges. If approved, this change is scheduled to become effective on May 30, 1994. The following information summarizes the change applicable to AT&T ACCUNET® Service.

> A feature group connection charge has been added to Feature Group A for the local channel service furnished by AT&T to the local exchange carrier. This charge was ordered by the F.C.C. under Local Transport Restructure (LTR). The charges are specific to the Local Access and Transport Areas (LATA) where service is provided.
>
> Your local channel charge for Feature Group A services was previously incorporated into the usage charge billed by the local exchange company. The restructure requires that the facility charges be separated from the usage charges, and therefore, two bills must be rendered for Feature Group A services. The local channel charge will now be included in your AT&T bill. The usage bill will continue to be rendered by the local exchange company.

If you require additional assistance regarding this filing or any other aspects of your data communications needs, please contact your AT&T Account Executive or call AT&T Data Communications Services at 1 800 248-3632 between 9:00 am and 6:00 pm Eastern Time.

Sincerely,

Molly Langridge